

For the year ended December 31, 2000

24. WARRANTS

During the year, a total of 39,400 warrants were exercised by a warrantholder of the Company to subscribe for 39,400 ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$1.80 per share.

During the year ended December 31, 1999, 23,100 shares of HK\$0.10 each were issued at HK\$1.80 per share upon the exercise of warrants by a warrantholder.

At December 31, 2000, the Company had outstanding warrants of approximately HK\$223,156,759. Exercise in full of such warrants would result in the issue of approximately 123,975,977 shares at a subscription price of HK\$1.80 per share, subject to adjustment.

25. SHARE OPTIONS

In accordance with the terms of the Company's Share Option Scheme adopted on May 27, 1994, the Company may grant to employees of the Group, including executive directors, options to subscribe for shares in the Company. The subscription price, subject to adjustment, is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the last dealt prices of the shares of the Company on the five trading days immediately before the option is granted. Options granted are exercisable for a period to be notified by the board of directors to each grantee and in any event such period of time shall not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted and shall expire at the end of such three year period or May 26, 2004 whichever is earlier. The maximum number of shares in respect of which options may be granted cannot exceed 10% of the issued share capital of the Company from time to time.

A summary of the movements during the year in share options granted under the Company's share option scheme is as follows:

Exercisable period	Exercise price per share <i>HK\$</i>	Outstanding at 1.1.2000	Granted during the year	Outstanding at 12.31.2000
5.1.1998 to 4.30.2001	0.81	28,000,000	–	28,000,000
8.20.2000 to 8.19.2003	0.67	–	30,000,000	30,000,000
9.28.2000 to 9.27.2003	0.62	–	20,000,000	20,000,000

No option was exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2000

26. RESERVES

	Share premium <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Non- distributable reserves <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At January 1, 1999	603,157	(157,299)	2,883	17,851	186,448	653,040
Premium arising on issue of shares on subscription	175,000	-	-	-	-	175,000
Expenses incurred in connection with the issue of shares on subscription	(5,983)	-	-	-	-	(5,983)
Premium arising on issue of shares for acquisition of subsidiaries	64,042	-	-	-	-	64,042
Expenses incurred in connection with the issue of shares for acquisition of subsidiaries	(30)	-	-	-	-	(30)
Premium arising on exercise of warrants	39	-	-	-	-	39
Goodwill arising on acquisition of subsidiaries	-	(11,748)	-	-	-	(11,748)
Transfers, net of minority interests' share	-	-	-	12,916	(12,916)	-
Profit attributable to shareholders	-	-	-	-	142,022	142,022
Dividend (note 8)	-	-	-	-	(40,933)	(40,933)
At December 31, 1999	<u>836,225</u>	<u>(169,047)</u>	<u>2,883</u>	<u>30,767</u>	<u>274,621</u>	<u>975,449</u>
Premium arising on exercise of warrants	67	-	-	-	-	67
Goodwill arising on acquisition of an associate	-	(2,032)	-	-	-	(2,032)
Goodwill realised on dissolution of a subsidiary	-	408	-	-	-	408
Transfers, net of minority interests' share	-	-	-	33,788	(33,788)	-
Profit attributable to shareholders	-	-	-	-	80,473	80,473
At December 31, 2000	<u><u>836,292</u></u>	<u><u>(170,671)</u></u>	<u><u>2,883</u></u>	<u><u>64,555</u></u>	<u><u>321,306</u></u>	<u><u>1,054,365</u></u>
Reserves attributable to:						
- Company and subsidiaries	836,292	(163,547)	2,776	64,555	308,175	1,048,251
- Associate	-	-	-	-	(290)	(290)
- Jointly controlled entity	-	(7,124)	107	-	13,421	6,404
	<u><u>836,292</u></u>	<u><u>(170,671)</u></u>	<u><u>2,883</u></u>	<u><u>64,555</u></u>	<u><u>321,306</u></u>	<u><u>1,054,365</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2000

26. RESERVES – continued

	Share premium <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Non- distributable reserves <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY						
At January 1, 1999	603,157	–	–	–	1,659	604,816
Premium arising on issue of shares on subscription	175,000	–	–	–	–	175,000
Expenses incurred in connection with the issue of shares on subscription	(5,983)	–	–	–	–	(5,983)
Premium arising on issue of shares for acquisition of subsidiaries	64,042	–	–	–	–	64,042
Expenses incurred in connection with the issue of shares for acquisition of subsidiaries	(30)	–	–	–	–	(30)
Premium arising on exercise of warrants	39	–	–	–	–	39
Profit attributable to shareholders	–	–	–	–	40,108	40,108
Dividend (note 8)	–	–	–	–	(40,933)	(40,933)
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At December 31, 1999	836,225	–	–	–	834	837,059
Premium arising on exercise of warrants	67	–	–	–	–	67
Profit attributable to shareholders	–	–	–	–	2,986	2,986
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2000	<u>836,292</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,820</u>	<u>840,112</u>

The non-distributable reserves represent statutory reserves appropriated from the profit after taxation of the Company's PRC subsidiaries under the PRC laws and regulations.

The Company's reserves available for distribution to shareholders as at December 31, 2000 represent its accumulated profits of HK\$3,820,000 (1999: HK\$834,000).

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2000

27. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	102,285	144,554
Share of loss of an associate	290	–
Share of profit of a jointly controlled entity	(3,779)	(7,210)
Loss on dissolution of a subsidiary	1,081	–
Interest expenses	29,843	29,407
Interest income	(6,635)	(11,845)
Impairment loss on property, plant and equipment	17,250	–
Provision for doubtful debts	12,030	1,263
Depreciation and amortisation	82,348	56,354
Amortisation of intangible assets	13,250	9,752
Loss (gain) on disposal of property, plant and equipment	25	(163)
Decrease in refundable input value-added tax recoverable	1,216	2,399
Increase in inventories	(15,219)	(45,203)
Increase in trade and other receivables	(60,385)	(84,987)
Increase in trade receivables due from related companies	(7,588)	(43,354)
(Decrease) increase in trade and other payables	(43,740)	37,765
Decrease in amounts due to related companies	–	(20,475)
Decrease in amount due to a jointly controlled entity	(1,129)	(1,767)
	121,143	66,490
Net cash inflow from operating activities	121,143	66,490

28. DISSOLUTION OF A SUBSIDIARY

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets of subsidiary at dissolution:		
Trade and other receivables	1,171	–
Bank balances and cash	1,405	–
Other payables	(1,903)	–
	673	–
Goodwill realised on dissolution of a subsidiary	408	–
Loss on dissolution of a subsidiary	(1,081)	–
	–	–
	(1,405)	–
The cash outflow arising from dissolution of a subsidiary	(1,405)	–

The subsidiary which was dissolved during the year did not have any significant impact on the Group's cash flows and operating results.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2000

29. PURCHASE OF SUBSIDIARIES

	2000	1999
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	–	39,729
Inventories	–	9,132
Trade and other receivables	–	36,133
Bank balances and cash	–	470
Trade and other payables	–	(3,215)
Amounts due to related companies	–	(20,475)
Minority interests	–	(632)
	<u>–</u>	<u>61,142</u>
Goodwill arising on consolidation	–	11,748
	<u>–</u>	<u>72,890</u>
SATISFIED BY:		
Shares issued by the Company	–	69,563
Related expenses paid on acquisition	–	3,327
	<u>–</u>	<u>72,890</u>

Analysis of net outflow of cash and cash equivalents in connection with the purchase of subsidiaries:

	2000	1999
	HK\$'000	HK\$'000
Bank balances and cash acquired	–	470
Cash paid on acquisition	–	(3,327)
	<u>–</u>	<u>–</u>
Net outflow of cash and cash equivalents in connection with the purchase of subsidiaries	<u>–</u>	<u>(2,857)</u>

The subsidiaries acquired during the year ended December 31, 1999 contributed HK\$15,700,000 to the Group's net operating cash flows, paid HK\$252,000 in respect of taxation and utilised HK\$4,349,000 for investing activities in that year.

The subsidiaries acquired during the year ended December 31, 1999 contributed HK\$64,355,000 to the Group's turnover and HK\$12,831,000 to the Group's profit from operations in that year.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended December 31, 2000

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At January 1, 1999	104,518	603,157	384,965	4,954
Issue of shares for cash on subscription	14,000	175,000	–	–
Expenses incurred in connection with the issue of shares on subscription	–	(5,983)	–	–
Issue of shares to finance the acquisition of subsidiaries	5,521	64,042	–	–
Expenses incurred in connection with the issue of shares to finance the acquisition of subsidiaries	–	(30)	–	–
Exercise of warrants	2	39	–	–
New bank loans raised	–	–	482,161	–
Repayment of bank loans	–	–	(435,490)	–
Acquired on acquisition of subsidiaries	–	–	–	632
Capital contributed by minority shareholders	–	–	–	648
Share of profits by minority shareholders	–	–	–	1,460
Dividends paid to minority shareholders of subsidiaries	–	–	–	(449)
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 1999	124,041	836,225	431,636	7,245
Exercise of warrants	4	67	–	–
New bank loans raised	–	–	400,281	–
Repayment of bank loans	–	–	(388,631)	–
Capital contributed by minority shareholders	–	–	–	1,935
Share of profits by minority shareholders	–	–	–	448
Dividends paid to minority shareholders of subsidiaries	–	–	–	(578)
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At December 31, 2000	<u>124,045</u>	<u>836,292</u>	<u>443,286</u>	<u>9,050</u>

31. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank balances and cash	123,300	119,995
Bank deposits	–	81,453
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	<u>123,300</u>	<u>201,448</u>

For the year ended December 31, 2000

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for land and property payable under non-cancellable operating leases within the next year, as follows:

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP		
Operating leases which expire:		
– within one year	728	121
– in the second to fifth year inclusive	710	1,092
– over five years	3,975	4,307
	5,413	5,520
THE COMPANY		
Operating leases which expire:		
– within one year	728	–
– in the second to fifth year inclusive	–	1,092
	728	1,092

33. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments:

	THE GROUP	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment		
	53,739	32,249
THE COMPANY		
Capital investment in respect of capital contribution in a subsidiary		
	–	50,384

34. CONTINGENT LIABILITIES

At December 31, 2000, the Company had given a corporate guarantee of HK\$23,220,000 (1999: HK\$23,220,000) to a bank to secure general banking facilities granted to a subsidiary of the Company.

For the year ended December 31, 2000

35. EMPLOYEE RETIREMENT BENEFITS SCHEMES

Other than those subsidiaries established in the PRC, the Group does not operate any retirement scheme covering their employees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government.

The relevant subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 20% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. During the year, the contributions made by the PRC subsidiaries relating to the arrangement were approximately HK\$9,284,000 (1999: HK\$6,106,000).

At the balance sheet date, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future years.

36. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(I) CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP	
		2000 HK\$'000	1999 HK\$'000
SPG Group	Sale of finished goods (note a)	153,980	87,946
	Sale of raw materials (note a)	–	699
	Purchase of raw materials (note a)	40	435
	Service charges payable relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note b)	7,142	12,018
	Management fee income (note c)	184	1,427
	Commission income (note d)	211	–

For the year ended December 31, 2000

36. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(I) CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE GROUP	
		2000 HK\$'000	1999 HK\$'000
SPG Group	Interest income from non-trade advances (note e)	–	2,713
	Interest expenses on non-trade payables (note f)	60	410
	Acquisition of subsidiaries from the SPG Group (note g)	–	69,563
	Guarantee given by SPG Group (note h)	95,416	7,484
	Balance due from (to) the SPG Group at December 31		
	– trade receivable	115,133	107,545
	– subordinated loan (note i)	(47,250)	(47,250)
Minority shareholder of a subsidiary	Consultancy fee paid (note j)	1,936	–

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP	
		2000 HK\$'000	1999 HK\$'000
Huarong, a jointly controlled entity of the Group	Purchase of raw materials (note a)	19,254	18,041
	Dividend income	2,747	–
	Balance due from (to) Huarong at December 31		
	– dividend receivable	2,747	–
	– non-trade receivable (note k)	5,117	–
	– trade payable	(2,997)	(4,126)

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36. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

Notes:

- (a) The transactions were carried out with reference to market prices.
- (b) Pursuant to service agreements entered into by the Group and the SPG Group, the Group paid service charges to the SPG Group based on the nature and the actual amount incurred on services provided by the SPG Group to the Group.
- (c) Pursuant to service agreements entered into by the Group and the SPG Group, SPG Group paid management fee to the Group based on 2% of the actual energy cost incurred as handling charges.
- (d) The transactions were carried out at a range of 0.75% to 12% charged on turnover.
- (e) The Group made non-trade advances to the SPG Group during the two years ended December 31, 1999. These advances carried interest at 9% per annum and were fully settled in April 1999.
- (f) The SPG Group made non-trade advances to the Group during the year which were fully settled during the year. These advances carried interest at 7% per annum.
- (g) The acquisition of subsidiaries from the SPG Group was satisfied by the issue of 55,208,254 new share of HK\$0.10 each in the Company to the SPG Group credited as fully paid at HK\$1.26 per share.
- (h) The SPG Group has given corporate guarantee of HK\$95,416,000 to banks to secure bank loans granted to a subsidiary of the Group.
- (i) The loan is unsecured and interest-free. Repayment of the loan is subordinated to a bank loan, the final repayment instalment of which is due in November 2002.
- (j) The transaction was carried out in accordance with the joint venture agreement entered into by the Group and the minority shareholder of a subsidiary.
- (k) The amount is unsecured, interest-free and repayable on demand.

37. PARTICULARS OF SUBSIDIARIES

Particulars of subsidiaries at December 31, 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of nominal value of issued share capital held by the Company		Principal activity
			Directly %	Indirectly %	
Bomiga Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
China Antibiotic Pharmaceutical Corporation Limited	Cayman Islands	US\$12,000	100	–	Inactive
China Nutraceuticals Limited (formerly known as China Nutraceutical Limited)	Hong Kong	HK\$1,000	–	80	Manufacture and sale of nutraceutical products

For the year ended December 31, 2000

37. PARTICULARS OF SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of nominal value of issued share capital held by the Company		Principal activity
			Directly %	Indirectly %	
Golden Wing Limited	Hong Kong	HK\$3	100	–	Trading of pharmaceutical products
Hebei Zhonghe Pharmaceutical Co., Ltd.	PRC	RMB76,000,000	99	–	Manufacture and sale of pharmaceutical products
Hebei Fenghua Pharmaceutical Co., Ltd.	PRC	US\$3,000,000	99	–	Manufacture and sale of pharmaceutical products
Hebei Zhongkang Pharmaceutical Co., Ltd.	PRC	RMB180,000,000	26	73	Manufacture and sale of pharmaceutical products
Hebei Zhongrun Pharmaceutical Co., Ltd.	PRC	RMB97,880,000	99	–	Manufacture and sale of pharmaceutical products
M2b.com.hk Limited	British Virgin Islands	US\$2,500,000	–	90	Development of e-commerce business in the PRC
Netcom Resources Limited	British Virgin Islands	US\$1,000	100	–	Investment holding
Shijiazhuang Jiali Pharmaceutical Co., Ltd.	PRC	RMB20,000,000	99	–	Manufacture and sale of pharmaceutical products
Shijiazhuang Weibao Pharmaceutical Co., Ltd.	PRC	US\$2,100,000	–	99	Manufacture and sale of pharmaceutical products
Tin Lon Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
Unity Pacific Limited	British Virgin Islands	US\$1	100	–	Investment holding
Vitam Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	US\$5,270,000	100	–	Manufacture and sale of pharmaceutical products
Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	US\$14,899,000	100	–	Manufacture and sale of pharmaceutical products

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

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For the year ended December 31, 2000

38. SEGMENT INFORMATION

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Geographical segments		
The People's Republic of China (the "PRC")		
Northern	375,760	321,791
Northeast	58,659	62,093
Central South	91,954	58,011
Eastern	164,427	57,286
Southwestern	51,444	38,000
Northwestern	12,915	7,671
Overseas		
Asia	122,892	127,044
America	50,791	72,829
Europe	59,144	68,251
Australia	4,949	7,475
Africa	2,161	870
	995,096	821,321

The Group has only one principal activity, namely sales of pharmaceutical products. Accordingly, no segmental analysis by activity is presented.

The contribution to profit from operations by individual geographical market is not presented as the contribution to profit from operations from each geographical market as a proportion of turnover from that market is in line with the overall ratio of profit to turnover achieved by the Group.